

UNEMPLOYMENT INSURANCE AGENCY

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2011 FUTA Credit Reduction

Employers pay two unemployment taxes

State unemployment taxes are paid by employers to the Unemployment Insurance Agency (UIA) on a quarterly basis. These payments are used only to pay the cost of unemployment benefits to laid-off workers in Michigan.

Employers also pay a federal unemployment tax to the Internal Revenue Service, authorized under the Federal Unemployment Tax Act. The tax is paid annually on IRS Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*. The revenue from this tax is used to: (1) pay administrative costs of federal and state workforce agencies, (2) pay the federal share of Extended Benefits (under the Federal-State Extended Unemployment Compensation Act of 1970) during periods of high unemployment, and (3) provide loans to states with insolvent unemployment Trust Funds.

Normal FUTA Tax

Employers pay FUTA on the first \$7,000 of each employee's annual wages. The FUTA tax is a flat rate of 6.2%, but employers who pay their state unemployment tax timely and in full receive a 5.4% credit. Therefore, the net FUTA rate is normally 0.8%.

Why is the FUTA Tax Credit Reduced?

Federal law provides for a reduction in the FUTA tax credit when a state has outstanding federal loans for two years. The reduction in the FUTA tax credit is 0.3% for the first year, and an additional 0.3% for each succeeding year until the loan is repaid. The FUTA credit reduction results in a net increase in FUTA taxes and applies to all Michigan contributing employers (except to Indian Tribes, nonprofit organizations, and governmental entities).

FUTA tax rate.....	6.2%
Credit allowed.....	5.4% (if state unemployment tax paid timely)
Net FUTA tax.....	0.8%
FUTA Credit Reduction in 2 nd year...	0.6%
Total FUTA tax.....	1.4%

This FUTA credit reduction results in an additional \$21 per employee (\$7,000 X 0.3% = \$21) in the first year that loans are un-repaid, an additional \$42 per employee (\$7,000 x 0.6% = \$42) in the second year and an additional \$21 in each succeeding year that loans are un-repaid.

When did the FUTA Credit Reduction take effect?

The FUTA credit reduction went into effect January 01, 2009. For 2009, the FUTA credit reduction was due on federal IRS Form 940 on January 31, 2010. For 2010, the credit reduction was due January 31, 2011.

For more information about the FUTA credit reduction, employers may call the UIA Employer Customer Relations hotline at 1-800-638-3994 or email TaxSupport@michigan.gov.

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